

ECONOMIC COMMENTARY

How the Current Slowdown is Affecting Alberta's Municipalities – September Update

September 8, 2016

Highlights:

The current economic recession has resulted in rapidly rising unemployment and a surge in the number of Employment Insurance beneficiaries in Alberta. The hardest hit municipalities are those that depend on the oil and gas services sector which saw the largest employment losses during the past year or on sectors that in turn depend on the oil and gas sector such as construction, manufacturing and engineering services. The wildfires in the Wood Buffalo area have led to sharp increases in EI beneficiaries in May and June.

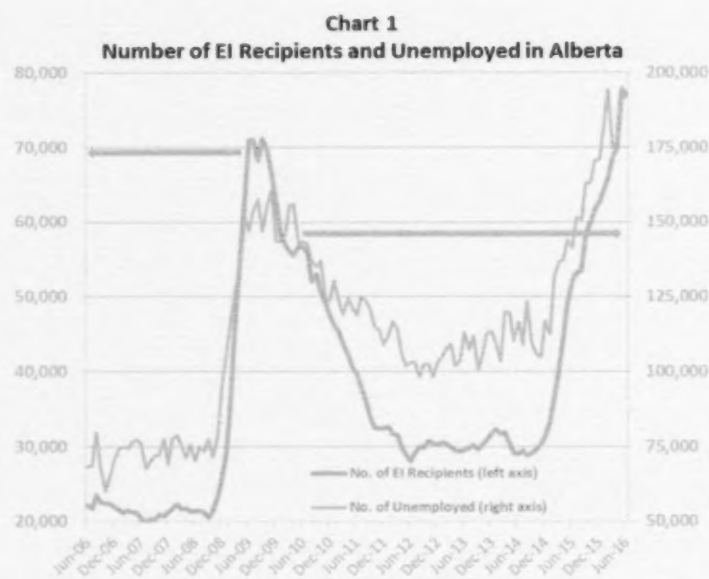
Overview

Alberta slipped into recession early last year (or in late 2014) and is still in recession according to the latest economic indicators, mainly as a result of sharply lower oil and gas prices. According to Statistics Canada's latest provincial GDP estimates the Alberta economy contracted by 4.0% in 2015. All private sector forecasters expect Alberta's GDP to decline by at least 2% this year. The recession has caused Alberta's unemployment rate to rise from 4.4% in December 2014 to 8.6% in July 2016, the highest unemployment rate in Alberta since 1994, as companies in the manufacturing, construction, engineering and architectural services and especially the oil and gas services sectors have been cutting back. Between May 2015 and May 2016, the number of payroll jobs in the oil and gas services sector fell by 26%, from 53,098 in June 2015 to 39,503 in June 2016¹, while employment fell by between 11% and 14% in the manufacturing, construction, and engineering and architectural services sectors.

Unfortunately, there is a scarcity of sub-provincial indicators that show how Alberta's municipalities are doing during this recession. The only indicator that is both fairly timely and available for municipalities is the number of Employment Insurance (EI) recipients receiving regular income benefits. The number of EI recipients is a useful unemployment indicator as EI covers eligible individuals who lose their jobs and who are available for work and are able to work, but cannot find a job.

This is the fourth commentary that examines current trends in the number of EI recipients in a number of Alberta municipalities since the start of the recession. Since the previous release that covered the period up to March 2016 the numbers of unemployed and EI recipients has continued to grow and stood about 10% higher in June than in March, which explains the need for this update.

At the Alberta level the number of recipients has risen from 31,220 in December 2014 (when the recession probably started) to 77,200 in June 2016 while the number of unemployed rose from 116,800 to 191,800 over the same period² (Chart



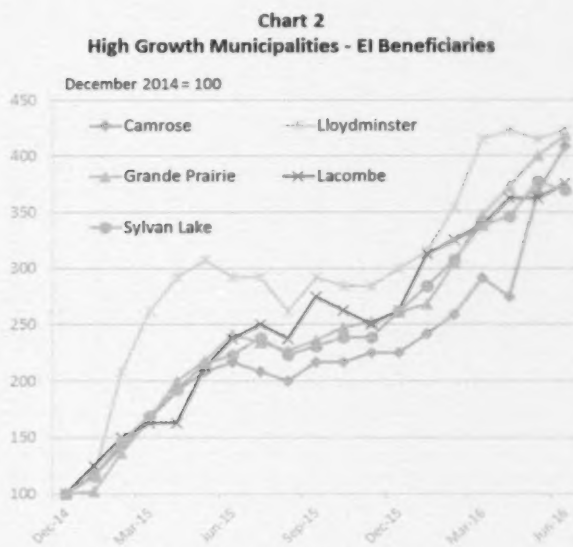
1). For the four or five months prior to May of this year the monthly increases in EI recipients had slowed to an average monthly increase of about 2.5%. However, the number rose by a record 11.4% in May because of the impacts of the wildfires in the Wood Buffalo region.

¹ Source: Statistics Canada's Survey of Employment, Payrolls and Hours

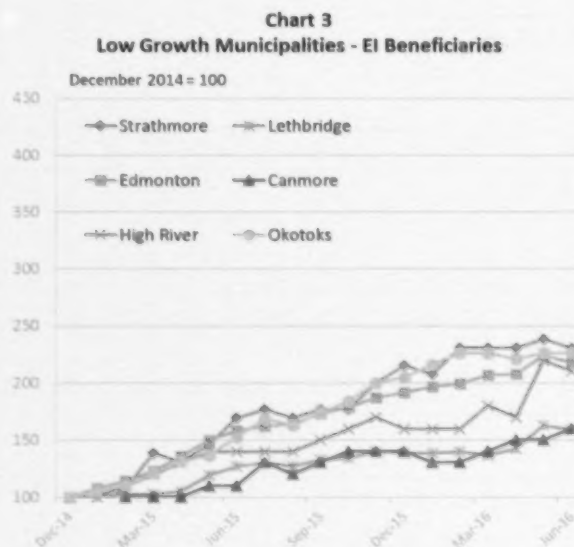
² There is always a certain proportion of unemployed people who do not qualify for benefits. Some unemployed people have not contributed to the program because they have not worked in the past 12 months or their employment is not insured. Other unemployed people have contributed to the program but do not meet the eligibility criteria, such as workers who left their job voluntarily or those who did not accumulate enough hours of work to receive benefits (source: <http://www.statcan.gc.ca/daily-quotidien/160519/dq160519b-eng.htm>)

EI Trends in Alberta's Largest Municipalities (Seasonally Adjusted Estimates)

Statistics Canada provides estimates for the numbers of EI recipients for most Alberta communities. However, seasonally adjusted estimates are only released on a regular basis for the 18 largest communities. As there is a great deal of seasonal variation in the estimates our regional analysis will start by first examining the trends in these 18 communities. Whereas in the next section EI estimates for individual municipalities are discussed, the seasonally adjusted estimates for Edmonton and Calgary in this section are for the larger metropolitan areas, for instance metropolitan Edmonton includes many surrounding municipalities such as St. Albert and Strathcona County.



Source: Statistics Canada, seasonally adjusted estimates



Source: Statistics Canada, seasonally adjusted estimates

The five municipalities in Chart 1 that have seen the largest per cent increases in EI recipients over the past 18 months (the Wood Buffalo region is discussed separately below) saw their numbers more than double during the first half of 2015, followed by continued growth since then. In Lloydminster, Grande Prairie and Camrose the number of EI recipients more than quadrupled over the entire period. The other two high growth communities, Sylvan Lake and Lacombe, had slightly lower growth rates of about 250% between December 2014 and June 2016.

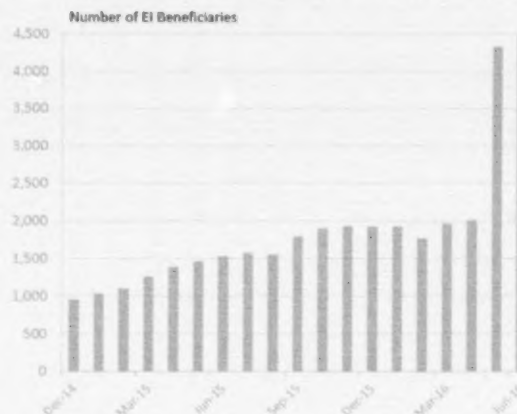
The six communities with the smallest increases during the past 18 months (Chart 2) include the metropolitan area of Edmonton, three communities with relatively little dependence on oil and gas, namely Lethbridge, Canmore and High River, and also Okotoks.

In the Wood Buffalo region the number of recipients actually increased at a modest pace until April 2016, compared with the overall Alberta trend in EI recipients. However, the number rose sharply in May and June because of the wildfires in the region (Chart 3), and reached nearly 4,500 in June, up from about 2,000 in April.

Although oil sands investment fell by more than one-third last year and jobs have been lost in the Wood Buffalo region, many of these lost jobs were occupied by workers from other parts of the province and from other provinces, and did not show up in Wood Buffalo's EI numbers. Moreover, oil sands production remained strong through the first few months of this year and therefore not many jobs were lost at existing production facilities during the first four months of 2016 – just at new projects.

Many sectors that are located in the Wood Buffalo region have been hard-hit by the impacts of the wildfires. Oil sands production declined by close to 20% in May as synthetic crude oil production fell by one-half. Manufacturers of machinery and fabricated metals have also been hard hit by slumping demand in the oil sands sector.

Chart 4
Wood Buffalo Wildfires Cause Spike in EI Beneficiaries



Source: Statistics Canada, seasonally adjusted estimates

EI Trends in Alberta Municipalities (Not Seasonally Adjusted)

Because Statistics Canada rounds all EI estimates to the nearest 10 and because there is considerable volatility in the estimates, especially for the smaller centres, we compare the average number of recipients during the most recent three-month period (April to June) to the average number for the same period of 2015 in the remainder of this commentary. The below estimates are not seasonally adjusted and therefore only year-over-year growth rates are presented. Another difference with the previous section is that the estimates for Edmonton and Calgary only cover the cities and other municipalities that are part of the above metropolitan areas of Edmonton and Calgary are now shown separately.

Table 1 presents the EI trends for Alberta's top 20 municipalities (on an EI basis). For Alberta's two largest municipalities, the cities of Calgary and Edmonton, which together account for one-half of the total number of EI recipients in Alberta, the numbers increased by 56% and 46%, respectively, on a year-over-year basis. By comparison, the number increased by 59% in all of Alberta between the second quarter of 2015 and the second quarter of 2016. The reason for the lower increase in Edmonton than in Calgary is that the number of unemployed people has grown more in Calgary than in Edmonton (according to the Labour Force Survey).

Among the 10 largest municipalities Wood Buffalo region registered the largest year-over-year increase of 169%. Grande Prairie County registered the second largest increase of 117%. This large increase can be explained by the large share of employment that the oil and gas services sector accounts for (10% in 2011). By comparison, the oil and gas services sub-sector accounted for 2.9% of all jobs in Alberta. There are also a large number of construction firms in Grande Prairie. Large increases were also registered in Rocky Mountain House (up 94%) where many oil and gas services and construction companies are located and in Strathcona County (up 86%) where many construction firms are located. In Lethbridge, EI recipients rose only 35% because the oil and gas sector accounts for a very small share of employment.

Table 1 - Top 20 Municipalities on EI Basis

	Average number of EI recipients April 2015 to June 2015	Average number of EI recipients April 2016 to June 2016	Per cent Change
Calgary	13,830	21,593	56%
Edmonton	11,880	17,340	46%
RM of Wood Buffalo	1,493	4,017	169%
Red Deer	1,717	2,417	41%
Grande Prairie	1,097	1,953	78%
Medicine Hat	887	1,373	55%
Strathcona County	717	1,330	86%
Airdrie	673	1,157	72%
Lethbridge	707	953	35%
Leduc	567	880	55%
St. Albert	500	813	63%
Spruce Grove	380	663	75%
Lloydminster	407	593	46%
Fort Saskatchewan	310	513	66%
Sylvan Lake	290	490	69%
Cold Lake	327	487	49%
Rocky Mountain House	240	467	94%
Parkland County	297	457	54%
Grande Prairie County	210	457	117%
Camrose	267	453	70%

In Table 2, the municipalities with more than 100 EI recipients in 2016 and with the largest year-over-year increases are shown. While in 2015 most of the high-growth municipalities were heavily dependent on the oil and gas sector and on the oil and gas services sub-sector in particular, in 2016 a number of municipalities with less of a dependence on oil and gas services are also showing large increases as many other sectors are now also impacted.

Table 2 - Largest Increases in EI Recipients

	Average number of EI recipients April 2015 to June 2015	Average number of EI recipients April 2016 to June 2016	Per cent Change
RM of Wood Buffalo	1,493	4,017	169%
Carstairs	50	127	154%
Rimbey	57	137	140%
Beaverlodge	60	143	138%
Thorhild County	50	117	134%
Edson	120	273	128%
Grande Prairie County	210	457	118%
Peace River	110	233	112%
Penhold	60	127	112%
Wetaskiwin County	63	133	111%
Onoway	107	223	108%
Brazeau County	53	110	108%
Athabasca	80	163	104%
Drayton Valley	220	447	103%
Vermilion River County	80	160	100%

Many of the communities in Table 2, such as Carstairs, Beaverlodge and Thorhild County, have a relatively large construction work force. Other municipalities, such as Grande Prairie County, Brazeau County and Drayton Valley, are heavily dependent on the oil and gas services sector. Both of these sectors saw sharp employment losses during the past year.

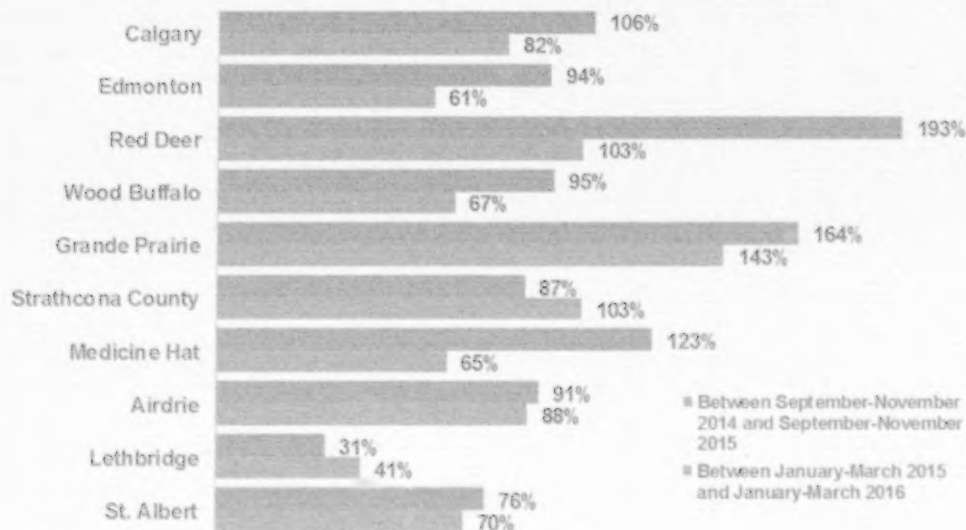
Between the April to June 2015 period and the same period of 2016, the municipalities with the smallest increases in the number of EI recipients (Table 3) include Beaver County (up 3%), Blackfalds (up 5%), Smoky Lake County (up 20%) and Barrhead (up 23%). Six of the municipalities in Table 3 had very steep increases in EI numbers last year, followed by more modest growth this year. For instance, between the fourth quarter of 2014 and the fourth quarter of 2015 the number increased by 186% in Devon, by 158% in Brooks and by 138% in Blackfalds, compared with a 102% increase at the Alberta level.

Table 3 – Smallest Increases in EI Recipients

	Average number of EI recipients April 2015 to June 2015	Average number of EI recipients April 2016 to June 2016	Per cent Change
Beaver County	117	120	3%
Blackfalds	193	203	5%
Smoky Lake County	100	120	20%
Barrhead	93	113	22%
Slave Lake	163	200	23%
Opportunity No. 17	197	243	23%
St. Paul County	117	147	26%
Brooks	340	440	29%
High level	87	113	30%
Devon	127	167	31%
Hinton	167	223	34%
Lethbridge	707	953	35%
Taber	103	140	36%
Ermineskin 138	73	100	37%

In Chart 4 we examine how much the growth rates in the largest 10 municipalities (on an EI basis) have changed over the past six months, i.e. we compare the year-over-year growth rates between the fourth quarter of 2014 and the same period of 2015 against those of the most recent time period of April through June. Not surprisingly, the growth rate has increased sharply in the Wood Buffalo region, where the growth rate was 100% for October through December vs 169% for April through June because of the wildfires. The growth rates have fallen in all other large municipalities. The largest drop in growth rates was noted for Red Deer, where the growth rate was 178% for the October through December period vs 41% for April through June, followed by Leduc (from 149% to 55%) and Grande Prairie (from 171% to 78%). Growth rates have also fallen sharply in the province's largest two cities Calgary (from 108% to 56%) and Edmonton (from 91% to 46%).

Chart 5
Year-over-Year Growth in EI Recipients
In Alberta's 10 Largest Municipalities*



* On an EI basis

Source: Statistics Canada

In summary, even in the second quarter of 2016, the number of unemployed and of EI recipients in Alberta continued to rise, although most of the recent increases are likely the result of the Wood Buffalo wildfires. As the above discussion shows most Alberta municipalities have been impacted by the economic slowdown which resulted from falling oil and gas prices and declining oil and gas investment. The hardest hit municipalities are generally those that are heavily dependent on the oil and gas services sector. EI numbers in the Wood Buffalo area have risen sharply in May and June because of the wildfires. We can expect that over the next few months the number of EI recipients in Alberta may actually decline slightly as employment in the Wood Buffalo should slowly rebound as hopefully most of the oil sands workers and other workers in Fort McMurray head back to work. The eventual rebuilding of Fort McMurray will also have a positive impact on employment in the region and in Alberta.